

**REPORT OF THE AUDIT OF THE
JACKSON COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2009**

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To the People of Kentucky

Honorable Steve L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable William O. Smith, Jackson County Judge/Executive

Members of the Jackson County Fiscal Court

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Jackson County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Jackson County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Jackson County, Kentucky, prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The financial statements do not include financial data for the County's legally separate component unit. Accounting principles generally accepted in the United States of America require the financial data for this component unit to be reported with the financial data of the County's primary government unless the county also issues financial statements for the financial reporting entity that include the financial data for its component unit. The County has not issued such reporting entity financial statements. Accounting principles generally accepted in the United States of America require the Jackson County Public Properties Corporation to be presented as a major governmental fund and the financial information about the Jackson County Public Properties Corporation to be part of the governmental activities, thus increasing that activity's assets, liabilities, revenues, and expenses, and changing its net assets. The amount by which this departure would affect the assets, liabilities, net assets, revenues, and expenses of the governmental activities and the omitted major fund is not reasonably determinable.

To the People of Kentucky
Honorable Steve L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable William O. Smith, Jackson County Judge/Executive
Members of the Jackson County Fiscal Court

In our opinion, because of the omission of the Jackson County Public Properties Corporation, as discussed above, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America as modified by the basis of accounting described in Note 1, the financial position of the Jackson County Public Properties Corporation, a major fund of Jackson County, Kentucky, as of June 30, 2009, or the changes in financial position thereof for the year then ended.

In addition, in our opinion, except for the effects of the omitted blended component unit as discussed above, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of Jackson County, Kentucky, as of June 30, 2009, and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

Further, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the general fund, road fund, jail fund and the aggregate remaining fund information of Jackson County, Kentucky, as of June 30, 2009, and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The Jackson County Fiscal Court has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements, but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated November 9, 2009 on our consideration of Jackson County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Jackson County, Kentucky's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Tommy Slone, Jackson County Judge/Executive
Members of the Jackson County Fiscal Court

Based on the results of our audit, we present the comments and recommendations, included herein, which discusses the following report comments:

- 2009-1 Grant Receipts Are Included In Miscellaneous Revenue Accounts
- 2009-2 The Jailer Should Keep All Copies of Voided Receipts
- 2009-3 The Jailer Should Always Utilize Prenumbered Receipts
- 2009-4 The Jackson County Jailer Lacks Adequate Segregation Of Duties
- 2009-5 The Jailer Should Keep Receipts in Triplicate
- 2009-6 The Jailer Could Have Violated The Code Of Ethics

Respectfully submitted,

Morgan - Franklin, LLC

Morgan – Franklin, LLC

Audit fieldwork completed -
November 9, 2009

JACKSON COUNTY OFFICIALS

For The Year Ended June 30, 2009

Fiscal Court Members:

William O. Smith	County Judge/Executive
Leon Bingham	Magistrate
Raymond Dale Vaughn	Magistrate
Doug Rose	Magistrate

Other Elected Officials:

George Hays	County Attorney
Ronnie Gabbard	Jailer
Donald Moore	County Clerk
Bobby Morris	Circuit Court Clerk
Tim Fee	Sheriff
Paul Rose	Property Valuation Administrator
Melvin Lakes	Coroner

Appointed Personnel:

Beth Sallee	County Treasurer
Teresa Truett	Occupational Tax Administrator
Larry Truett	Road Supervisor

JACKSON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2009

JACKSON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2009

	<u>Primary Government Governmental Activities</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 1,241,687
Total Current Assets	<u>1,241,687</u>
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation	
Land and Land Improvements	647,273
Construction In Progress	190,941
Buildings	1,579,344
Vehicles and Equipment	865,619
Infrastructure Assets - Net of Depreciation	<u>2,075,107</u>
Total Noncurrent Assets	<u>5,358,284</u>
Total Assets	<u>6,599,971</u>
 NET ASSETS	
Invested in Capital Assets, Net of Related Debt	5,358,284
Unrestricted	1,241,687
Total Net Assets	<u>\$ 6,599,971</u>

The accompanying notes are an integral part of the financial statements.

JACKSON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

JACKSON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

Functions/Programs Reporting Entity	Program Revenues Received				Net (Expenses) Revenues and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government
					Governmental Activities
Primary Government:					
Governmental Activities:					
General Government	\$ 675,533	\$	\$ 121,678	\$	\$ (553,855)
Protection to Persons and Property	1,093,613	17,245	424,499		(651,869)
General Health and Sanitation	503,711	334,865	31,453	81,092	(56,301)
Social Services	5,000		25,928		20,928
Recreation and Culture	81,853	9,303			(72,550)
Roads	1,186,866		1,507,113		320,247
Capital Projects	169,805				(169,805)
Interest on Long-term Debt	755,926				(755,926)
Total Governmental Activities	<u>4,472,307</u>	<u>361,413</u>	<u>2,110,671</u>	<u>81,092</u>	<u>(1,919,131)</u>
Total Primary Government	<u>\$ 4,472,307</u>	<u>\$ 361,413</u>	<u>\$ 2,110,671</u>	<u>\$ 81,092</u>	<u>(1,919,131)</u>
General Revenues:					
Taxes:					
Real Property Taxes					173,495
Personal Property Taxes					50,035
Motor Vehicle Taxes					59,706
Insurance License Taxes					433,074
Occupational License Tax					701,496
Other Taxes					221,449
In Lieu Taxes					429,401
Excess Fees					74,143
Miscellaneous					36,580
Interest Income					13,459
Total General Revenues					<u>2,192,838</u>
Change in Net Assets					273,707
Net Assets - Beginning (Restated)					<u>6,326,264</u>
Net Assets - Ending					<u>\$ 6,599,971</u>

The accompanying notes are an integral part of the financial statements.

JACKSON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2009

JACKSON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2009

	General Fund	Road Fund	Jail Fund	Non- Major Funds	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 894,022	\$ 123,410	\$ 25,598	\$ 198,657	\$ 1,241,687
Total Assets	<u>\$ 894,022</u>	<u>\$ 123,410</u>	<u>\$ 25,598</u>	<u>\$ 198,657</u>	<u>\$ 1,241,687</u>
FUND BALANCES					
Unreserved:					
General Fund	\$ 894,022	\$	\$	\$	\$ 894,022
Special Revenue Funds		123,410	25,598	198,657	347,665
Total Fund Balances	<u>\$ 894,022</u>	<u>\$ 123,410</u>	<u>\$ 25,598</u>	<u>\$ 198,657</u>	<u>\$ 1,241,687</u>

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 1,241,687
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used In Governmental Activities Of \$7,979,904,	
Net Of Accumulated Depreciation Of \$2,621,620 Are Not Financial	
Resources And, Therefore, Are Not Reported In The Funds	<u>5,358,284</u>
Net Assets Of Governmental Activities	<u>\$ 6,599,971</u>

The accompanying notes are an integral part of the financial statements.

JACKSON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

JACKSON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

	General Fund	Road Fund	Jail Fund	Non- Major Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 1,636,485	\$	\$	\$ 2,769	\$ 1,639,254
In Lieu Tax Payments	115,274	314,127			429,401
Excess Fees	74,143				74,143
Intergovernmental	186,879	1,195,777	97,545	767,317	2,247,518
Charges for Services	26,544		16,119	279,736	322,399
Miscellaneous	9,746	10,093			19,839
Interest	7,743	4,089	250	1,377	13,459
Total Revenues	<u>2,056,814</u>	<u>1,524,086</u>	<u>113,914</u>	<u>1,051,199</u>	<u>4,746,013</u>
EXPENDITURES					
General Government	689,005	10,800		6,861	706,666
Protection to Persons and Property	193,600		544,798	262,756	1,001,154
General Health and Sanitation	39,266			490,249	529,515
Social Services				5,000	5,000
Recreation and Culture				59,552	59,552
Roads		1,056,491		61,376	1,117,867
Capital Projects	183,941			181,305	365,246
Administration	344,107	289,146	70,006	52,667	755,926
Total Expenditures	<u>1,449,919</u>	<u>1,356,437</u>	<u>614,804</u>	<u>1,119,766</u>	<u>4,540,926</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>606,895</u>	<u>167,649</u>	<u>(500,890)</u>	<u>(68,567)</u>	<u>205,087</u>
OTHER FINANCING SOURCES (USES)					
Transfers From Other Funds	178,221	15,835	515,000		709,056
Transfers To Other Funds	(515,000)	(149,250)		(44,806)	(709,056)
Total Other Financing Sources (Uses)	<u>(336,779)</u>	<u>(133,415)</u>	<u>515,000</u>	<u>(44,806)</u>	<u>0</u>
Net Change in Fund Balances	270,116	34,234	14,110	(113,373)	205,087
Fund Balances - Beginning (Restated)	623,906	89,176	11,488	312,030	1,036,600
Fund Balances - Ending	<u>\$ 894,022</u>	<u>\$ 123,410</u>	<u>\$ 25,598</u>	<u>\$ 198,657</u>	<u>\$ 1,241,687</u>

The accompanying notes are an integral part of the financial statements.

JACKSON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

JACKSON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES -
MODIFIED CASH BASIS

For The Year Ended June 30, 2009

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ 205,087
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Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	594,266
Depreciation Expense	(443,466)
Net Book Value of Disposed Assets	<u>(82,180)</u>

Change in Net Assets of Governmental Activities	<u><u>\$ 273,707</u></u>
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JACKSON COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2009

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Jackson County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable, except for the Jackson County Public Properties Corporation, a blended component unit of the County. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. The County has no discretely presented component units.

Blended Component Units

The following legally separate organizations provide their services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. These organizations' balances and transactions should be reported as though they are part of the county's primary government using the blending method.

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Units (Continued)

The KADD Financing Trust Lease Fund

The KADD Financing Trust Lease Fund is established for the Fiscal Court for the purpose of providing financing for approved projects and is maintained by a third party trustee on the Fiscal Court's behalf; therefore, management must include this fund as a part of the reporting entity and its financial activity is blended with that of the Fiscal Court.

~~The Jackson County Recreation and Parks Board~~

The Jackson County Recreation and Parks Board is established for the purpose of maintaining and overseeing the day-to-day operations of the county parks. The Jackson County Fiscal Court is financially accountable for the Board; therefore, management must include the board as part of the reporting entity and its financial activity is blended with that of the Fiscal Court.

Jackson County Public Properties Corporation

The fiscal court appoints the voting majority of the Public Properties Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the Jackson County Public Properties Corporation. The financial activity of the Jackson County Public Properties Corporation has been omitted from the County's financial statements. Had this activity been presented, it would have been blended with that of the Fiscal Court.

C. Additional Jackson County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Jackson County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Jackson County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. The County has no business-type revenues.

The government-wide statements are reported using the economic resources measurement focus and the modified cash basis of accounting, as do the proprietary fund financial statements. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds

All governmental fund statements are reported using the current financial resources measurement focus and the modified cash basis of accounting. The modified cash basis recognizes revenues when received and expenditures when paid.

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

The primary government also has the following non-major funds: Forestry Fund, Transfer Fund, KADD Fund, Recreation and Parks Fund, Local Government Economic Assistance Fund, Federal Grant Fund, Disaster and Emergency Services Fund, and the State Grant Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Transfer Fund, State Grant Fund, Federal Grant Fund, Forestry Fund, Disaster and Emergency Services Fund, and the Recreation and Parks Fund are presented as special revenue funds. Special revenue funds are used to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Service Fund:

The KADD Fund is presented as a debt service fund. Debt service funds are used to account for the accumulation of resources for and the payment of general long-term debt principal and interest.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale on April 30.

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	3-25
Infrastructure	\$ 20,000	10-50

Any other asset below the capitalization threshold may be capitalized at the Treasurer's discretion.

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

H. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

I. Jointly Governed Organizations

A jointly governed organization is an entity that results from a multigovernmental arrangement that is governed by representatives from each participating government. The entity provides services to the citizens of each participating government, but there is no ongoing financial interest or responsibility by the participating governments. The jointly governed organization can act independently of each of the participating governments. The Jackson County McKee Industrial Development Authority meets the criteria noted above and is disclosed as an organization jointly governed by Jackson County and the City of McKee.

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 2. Deposits

A. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is; (a) in writing; (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee and; (c) an official record of the depository institution.

B. Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution's failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. As of June 30, 2009, \$105,000 of deposits were covered by FDIC insurance and \$1,416,801 were covered by a properly executed collateral security agreement.

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2009 was as follows:

	Reporting Entity			Ending Balance
	Beginning Balance (Restated)	Increases	Decreases	
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 647,273	\$	\$	\$ 647,273
Construction In Progress	585,236	197,994	(592,289)	190,941
Total Capital Assets Not Being Depreciated	1,232,509	197,994	(592,289)	838,214
Capital Assets, Being Depreciated:				
Buildings & Improvements	1,556,620	592,289		2,148,909
Vehicles and Equipment	1,965,405	85,263	(209,428)	1,841,240
Infrastructure	2,840,533	311,008		3,151,541
Total Capital Assets Being Depreciated	6,362,558	988,560	(209,428)	7,141,690
Less Accumulated Depreciation For:				
Buildings	(522,065)	(47,500)		(569,565)
Vehicles and Equipment	(1,022,057)	(80,812)	127,248	(975,621)
Infrastructure	(761,280)	(315,154)		(1,076,434)
Total Accumulated Depreciation	(2,305,402)	(443,466)	127,248	(2,621,620)
Total Capital Assets, Being Depreciated, Net	4,057,156	545,094	(82,180)	4,520,070
Governmental Activities Capital Assets, Net	<u>\$ 5,289,665</u>	<u>\$ 743,088</u>	<u>\$ (674,469)</u>	<u>\$ 5,358,284</u>

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 9,213
Protection to Persons and Property	34,129
General Health and Sanitation	4,259
Recreation and Culture	22,301
Roads, Including Depreciation of General Infrastructure Assets	373,564
Total Depreciation Expense - Governmental Activities	<u>\$ 443,466</u>

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 4. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.5 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 5. Insurance

For the fiscal year ended June 30, 2009, Jackson County was a member of the Kentucky Association of Counties' All Line Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 6. Construction In Progress

Construction in progress as of June 30, 2009 consisted of the following project:

Jackson County Detention Center	<u>\$ 190,941</u>
---------------------------------	-------------------

Note 7. Prior Period Adjustments

Net Assets – Beginning, on the Statement of Activities has been decreased by \$749,233. This decrease is the result of the following:

Construction In Progress – KIA Water Line Project	(\$1,554,025)
Removal Of Jackson County Public Properties Corporation Net Assets	738,705
Fixed Assets – Net of Accumulated Depreciation	69,838
Miscellaneous Adjustment	<u>(3,751)</u>
Decrease in Net Assets – Beginning	<u>(\$ 749,233)</u>

These adjustments resulted in a restated Net Assets – Beginning balance of \$6,326,264.

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 8. Subsequent Events

During our search for subsequent events, which extended to November 9, 2009, we noted the following:

On August 3, 2009, Jackson County entered into a lease agreement with the Kentucky Association of Counties for the construction of the Jackson County Detention Center. Terms of the lease agreement stipulate a thirty-year repayment schedule with varying monthly payments at variable interest rates.

On August 11, 2009 the county approved the purchase of property for the Industrial Authority for \$1,000,000. The Industrial Authority is a jointly governed organization. (See note 1.J)

JACKSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009

JACKSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2009

GENERAL FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 1,343,300	\$ 1,518,300	\$ 1,636,485	\$ 118,185
In Lieu Tax Payments	97,000	97,000	115,274	18,274
Excess Fees	41,200	72,967	74,143	1,176
Intergovernmental Revenue	133,675	133,675	186,879	53,204
Charges for Services	20,000	20,000	26,544	6,544
Miscellaneous	2,000	39,888	9,746	(30,142)
Interest	1,200	1,200	7,743	6,543
Total Revenues	<u>1,638,375</u>	<u>1,883,030</u>	<u>2,056,814</u>	<u>173,784</u>
EXPENDITURES				
General Government	780,841	698,103	689,005	9,098
Protection to Persons and Property	140,268	315,418	193,600	121,818
General Health and Sanitation	50,000	87,888	39,266	48,622
Capital Projects		183,941	183,941	0
Administration	365,533	350,948	344,107	6,841
Total Expenditures	<u>1,336,642</u>	<u>1,636,298</u>	<u>1,449,919</u>	<u>186,379</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	301,733	246,732	606,895	360,163
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	149,250	149,250	178,221	28,971
Transfers To Other Funds	(561,466)	(561,466)	(515,000)	46,466
Total Other Financing Sources (Uses)	<u>(412,216)</u>	<u>(412,216)</u>	<u>(336,779)</u>	<u>75,437</u>
Net Changes in Fund Balance	(110,483)	(165,484)	270,116	435,600
Fund Balance - Beginning	<u>110,483</u>	<u>165,483</u>	<u>623,906</u>	<u>458,423</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (1)</u>	<u>\$ 894,022</u>	<u>\$ 894,023</u>

JACKSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
In Lieu Tax Payments	\$ 114,453	\$ 314,127	\$ 314,127	\$
Intergovernmental Revenue	1,083,061	1,083,061	1,195,777	112,716
Miscellaneous	1,000	1,000	10,093	9,093
Interest	4,000	4,000	4,089	89
Total Revenues	1,202,514	1,402,188	1,524,086	121,898
EXPENDITURES				
General Government	10,800	10,800	10,800	0
Roads	928,079	1,068,538	1,056,491	12,047
Administration	239,143	298,358	289,146	9,212
Total Expenditures	1,178,022	1,377,696	1,356,437	21,259
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	24,492	24,492	167,649	143,157
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds			15,835	15,835
Transfers to Other Funds	(149,250)	(149,250)	(149,250)	
Total Other Financing Sources (Uses)	(149,250)	(149,250)	(133,415)	15,835
Net Changes in Fund Balance	(124,758)	(124,758)	34,234	158,992
Fund Balance - Beginning	124,758	124,758	89,176	(35,582)
Fund Balance - Ending	\$ 0	\$ 0	\$ 123,410	\$ 123,410

JACKSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 87,540	\$ 87,540	\$ 97,545	\$ 10,005
Charges for Services	3,000	3,000	16,119	13,119
Interest	500	500	250	(250)
Total Revenues	91,040	91,040	113,914	22,874
EXPENDITURES				
Protection to Persons and Property	571,406	571,022	544,798	26,224
Administration	86,100	86,484	70,006	16,478
Total Expenditures	657,506	657,506	614,804	42,702
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)				
	(566,466)	(566,466)	(500,890)	65,576
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	561,466	561,466	515,000	(46,466)
Total Other Financing Sources (Uses)	561,466	561,466	515,000	(46,466)
Net Changes in Fund Balance	(5,000)	(5,000)	14,110	19,110
Fund Balance - Beginning	5,000	5,000	11,488	6,488
Fund Balance - Ending	\$ 0	\$ 0	\$ 25,598	\$ 25,598

JACKSON COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2009

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

JACKSON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2009

JACKSON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2009

	Forestry Fund	Transfer Fund	KADD Fund	Recreation and Parks Fund	Local Government Economic Assistance Fund
ASSETS					
Cash and Cash Equivalents	\$ 99	\$ 7,696	\$	\$ 8,879	\$ 77,832
Total Assets	<u>\$ 99</u>	<u>\$ 7,696</u>	<u>\$ 0</u>	<u>\$ 8,879</u>	<u>\$ 77,832</u>
FUND BALANCES					
Unreserved:					
Special Revenue Funds	99	7,696		8,879	77,832
Total Fund Balances	<u>\$ 99</u>	<u>\$ 7,696</u>	<u>\$ 0</u>	<u>\$ 8,879</u>	<u>\$ 77,832</u>

JACKSON COUNTY
 COMBINING BALANCE SHEET –
 NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS (CONTINUED)
 Other Supplementary Information

June 30, 2009

	Federal Grant Fund	Disaster and Emergency Services Fund	State Grant Fund	Total Non-Major Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 30,946	\$ 13,811	\$ 59,394	\$ 198,657
Total Assets	<u>\$ 30,946</u>	<u>\$ 13,811</u>	<u>\$ 59,394</u>	<u>\$ 198,657</u>
FUND BALANCES				
Unreserved:				
Special Revenue Funds	<u>30,946</u>	<u>13,811</u>	<u>59,394</u>	<u>198,657</u>
Total Fund Balances	<u>\$ 30,946</u>	<u>\$ 13,811</u>	<u>\$ 59,394</u>	<u>\$ 198,657</u>

JACKSON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2009

JACKSON COUNTY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
 Other Supplementary Information

For The Year Ended June 30, 2009

	Forestry Fund	Transfer Fund	KADD Fund	Recreation and Parks Fund	Local Government Economic Assistance Fund
REVENUES					
Taxes	\$ 2,769	\$	\$	\$	\$
Intergovernmental		31,453			311,336
Charges For Services		270,433		9,303	0
Interest	29	242		62	1,044
Total Revenues	<u>2,798</u>	<u>302,128</u>		<u>9,365</u>	<u>312,380</u>
EXPENDITURES					
General Government					6,861
Protection to Persons and Property	3,493				106,074
General Health and Sanitation		277,105			89,169
Social Services					5,000
Recreation and Culture				12,320	47,232
Roads					61,376
Capital Projects					
Administration		28,952			23,715
Total Expenditures	<u>3,493</u>	<u>306,057</u>		<u>12,320</u>	<u>339,427</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(695)</u>	<u>(3,929)</u>		<u>(2,955)</u>	<u>(27,047)</u>
OTHER FINANCING SOURCES (USES)					
Transfers To Other Funds					
Total Other Financing Sources (Uses)					<u>0</u>
Net Change in Fund Balances	(695)	(3,929)		(2,955)	(27,047)
Fund Balances - Beginning	794	11,625		11,834	104,879
Fund Balances - Ending	<u>\$ 99</u>	<u>\$ 7,696</u>	<u>\$ 0</u>	<u>\$ 8,879</u>	<u>\$ 77,832</u>

JACKSON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information - Continued

For The Year Ended June 30, 2009

	Federal Grant Fund	Disaster and Emergency Services Fund	State Grant Fund	Total Non-Major Governmental Funds
REVENUES				
Taxes	\$	\$	\$	\$ 2,769
Intergovernmental	257,897	165,672	959	767,317
Charges For Services				279,736
Interest				1,377
Total Revenues	<u>257,897</u>	<u>165,672</u>	<u>959</u>	<u>1,051,199</u>
EXPENDITURES				
General Government				6,861
Protection to Persons and Property		153,189		262,756
General Health and Sanitation	92,097		31,878	490,249
Social Services				5,000
Recreation and Culture				59,552
Roads				61,376
Capital Projects	181,305			181,305
Administration				52,667
Total Expenditures	<u>273,402</u>	<u>153,189</u>	<u>31,878</u>	<u>1,119,766</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(15,505)</u>	<u>12,483</u>	<u>(30,919)</u>	<u>(68,567)</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds		(44,806)		(44,806)
Total Other Financing Sources (Uses)		<u>(44,806)</u>		<u>(44,806)</u>
Net Change in Fund Balances	(15,505)	(32,323)	(30,919)	(113,373)
Fund Balances - Beginning	46,451	46,134	90,313	312,030
Fund Balances - Ending	<u>\$ 30,946</u>	<u>\$ 13,811</u>	<u>\$ 59,394</u>	<u>\$ 198,657</u>

**JACKSON COUNTY FISCAL COURT
COMMENTS AND RECOMMENDATIONS
June 30, 2009**

Material Weaknesses

2009-1 Condition: Grant Receipts Are Included In Miscellaneous Revenue Accounts

Criteria: During our testing of grant receipts we noted that salary reimbursement for CSEPP was coded to two miscellaneous revenue accounts, one in the general fund and the other in the road fund.

Effect: Financial statements presented to the fiscal court are less informative.

Cause: The treasurer does not appear to be utilizing the chart of accounts.

Recommendation: We recommend that the treasurer post grant receipts to proper account codes and utilize transfer accounts when transferring money to different funds. By using proper financial statement accounts the fiscal court members receive more meaningful budget comparison schedules.

Judge/Executive William O. Smith's Response: In the future the transactions will be placed in transfer accounts to eliminate the doubling up of revenues.

2009-2 Condition: The Jailer Should Keep All Copies of Voided Receipts

Criteria: During our testing of booking fees we noted that all copies of voided receipts were not maintained in the receipt book.

Effect: Misappropriation of funds could occur and not be detected in a timely manner.

Cause: All copies of voided receipts were not maintained.

Recommendation: We recommend the jailer maintain all copies of voided receipts.

Judge/Executive William O. Smith's Response: Our system that we have in place now should eliminate this problem.

Jailer Ronnie Gabbard's Response: We have changed the intake procedure. We now use Jail Tracker. Receipts are no longer necessary.

**JACKSON COUNTY FISCAL COURT
COMMENTS AND RECOMMENDATIONS
June 30, 2009**

Material Weaknesses (Continued)

2009-3 Condition: The Jailer Should Always Utilize Prenumbered Receipts

Criteria: During our testing of booking fees, we noted that the jailer did not always use prenumbered receipts. Prenumbered receipts help ensure that all funds collected are subsequently deposited and recorded on the financial statements.

Effect: Two of the eight deposits tested, could not be tied to the supporting receipts. When prenumbered receipts are not used misappropriation of funds could occur.

Cause: The jailer did not always use prenumbered receipts.

Recommendation: We recommend the jailer always use prenumbered receipts.

Judge/Executive William O. Smith's Response: None

Jailer Ronnie Gabbard's Response: Contract numbers are now printed on the Jail Tracker receipts.

2009-4 Condition: The Jackson County Jailer Lacks Adequate Segregation Of Duties

The Jailer's bookkeeper who is the Jailer's son handles every aspect of the processing of receipts. He collects money, enters the receipt into the computer and remits the money to the fiscal court.

Criteria: Good internal control dictates that one individual should not handle all aspects of a transaction.

Effect: Misappropriation of funds could occur and not be detected in a timely manner.

Cause: The collection of booking fees from inmates is a new process of the fiscal court and internal control procedures have not been developed as of June 30, 2009.

Recommendation: The treasurer, the Jailer, bookkeeper need to have open discussions of how and where fraud could occur and develop internal control procedures accordingly. An example of compensating controls would be for the Treasurer to receive a list of those who have paid jail fees as well as those who still owe the jail. Inmates could be sent a statement stating the amount owed and if they have any questions to contact the Treasurer or the finance officer.

Judge/Executive William O. Smith's Response: We will develop a plan to help eliminate internal control issues.

Jailer Ronnie Gabbard's Response: Each deputy on their shift is responsible for collecting money.

JACKSON COUNTY FISCAL COURT
COMMENTS AND RECOMMENDATIONS
June 30, 2009

NONCOMPLIANCES

2009-5 Condition: The Jailer Should Keep Receipts in Triplicate

Criteria: Per KRS 64.840 (2) one copy of the receipt shall be given to the person paying the fine forfeiture tax or fee and one copy shall be retained by the official for his own records. One copy of the receipt shall be retained by the official to be placed with the daily bank deposit.

Effect: Noncompliance with KRS 64.840 (2).

Cause: Failure to issue receipts in triplicate.

Recommendation: We recommend the jailer comply with KRS 64.840 (2) in the future.

Judge/Executive William O. Smith's Response: Our system that we have in place now should eliminate this problem.

Jailer Ronnie Gabbard's Response: We will comply in the future.

2009-6 Condition: The Jailer Could Have Violated The Code Of Ethics

Criteria: During our audit, we noted that the Jailer hired his son during the fiscal year ended June 30, 2009. We found no evidence the fiscal court approved the hiring of the Jailer's son. Per the Code of Ethics, NEPOTISM Section 4(A) No officer or employee shall participate in any action relating to the employment or discipline of an immediate family member. Member of Immediate Family is defined as spouse, parent, child, sibling, grandparents, grandchildren, step-children, half-siblings, mother-in-law, farther-in-law, son-in-law, daughter-in-law, brother-in-law, sister-in-law, first cousin, niece, nephew, uncle, aunt, or any of their spouses.

Effect: This may be a violation of the Code of Ethics.

Cause: The Jailer hired his immediate family members.

Recommendation: We recommend the jailer consult with the County Attorney and let him decide if this was a violation of the Code of Ethics, and the appropriate action to take.

Judge/Executive William O. Smith's Response: This was a documentation oversight.

Jailer Ronnie Gabbard's Response: Will request it be retroactively approved by the Fiscal Court.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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The Honorable William O. Smith, Jackson County Judge/Executive
Members of the Jackson County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Jackson County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements and have issued our report thereon dated November 9, 2009. The opinion on the Jackson County Public Properties Corporation, a component unit, was adverse because accounting principles generally accepted in the United States of America require the Jackson County Public Properties Corporation to be presented as a major governmental fund and the financial information about the Jackson County Public Properties Corporation to be part of the governmental activities, but it has been omitted. Jackson County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Jackson County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Jackson County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Jackson County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Jackson County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of Jackson County's financial statements that is more than inconsequential will not be prevented or detected by the Jackson County's internal control. We consider the following deficiencies described in the accompanying schedule of comments and recommendations to be significant deficiencies in internal control over financial reporting: 2009-1, 2009-2, 2009-3 and 2009-4.

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Jackson County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2009-1, 2009-2 and 2009-3 to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Jackson County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of comments and recommendations as items 2009-5 and 2009-6.

Jackson County's responses to the findings identified in our audit are described in the accompanying schedule of comments and recommendations. We did not audit Jackson County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management and the Department for Local Government and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

Morgan - Franklin, LLC

Morgan – Franklin, LLC

Audit fieldwork completed -
November 9, 2009

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

JACKSON COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2009**

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAMS
JACKSON COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2009

The Jackson County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Programs was expended for the purposes intended as dictated by the applicable Kentucky Revised Statutes.



William O. Smith
County Judge/Executive



Beth Salter
County Treasurer